



# WEEK OUT

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

**MARCH 12, 2001**

## **WHEAT MARKET – STILL WAITING**

Over the last several months, a number of analysts have outlined the general supply and demand situation for wheat. World wheat production was a record 1.5 billion tons in 1997-98, but has declined for three consecutive years. The crop for the 2000-01 season is estimated at 580.4 million tons. Harvested acreage of wheat declined from 553 million acres in 1997-98 to 533 million acres on 2000-01. Reductions have occurred in the U.S., China, and the former Soviet Union. Average world wheat yields were record large in 1999-00 and remained large in 2000-01.

As a result of the drop in production over the past three years, world wheat inventories have declined from an estimated 138.7 million tons at the end of the 1997-98 marketing year to a projection of 109 million tons by the end of the current marketing year. Supplies have remained large enough, however, that reductions in consumption have not been required. That is the most important difference between the current situation and that of 1994-95 and 1995-96, the last time world stocks were reduced to low levels.

After reaching a peak of 562 million tons in 1992-93, world production declined to 524.6 million tons in 1994-95 and recovered to only 537.5 million in 1995-96. As a result, world consumption was reduced from 562.4 million tons in 1993-94 to 547.7 million tons in 1994-95 and 550.5 million in 1995-96. World stocks were reduced from 144.6 million tons at the end of the 1992-93 marketing year to 106.9 million at the end of the 1995-96 marketing year. It was not just the reduction in stocks that created the high prices of 1995-96, it was the fact that consumers had to be forced out of the market. Strong world demand at that time required very high prices in order to reduce consumption.

While there have been periods of higher prices over the past six months, those high prices have not been sustained. July 2001 wheat futures at Chicago traded to about \$3.15 in October 2000 and again in January 2001. That contract, however, declined to \$2.84 last month and is currently trading near \$2.95. Prices have not had to go high enough to curtail consumption and demand remains a little sluggish. U.S. exports reached 1.24 billion bushels in 1995-96, declined to 1.0 billion bushels the following year and have recovered to only 1.1 billion projected for the current year. Stocks of wheat are relatively large in most exporting countries, including the U.S., Canada, Australia, and the European Union, as well as in India. The decline in world stocks has come primarily in the former Soviet Union and in China.

It now appears that world wheat production will remain modest again in 2001-02. Earlier this year, the USDA survey revealed a two million acre reduction in winter wheat seedings in the U.S. Some believe that additional acreage may be abandoned due to poor stands and low yield potential. At this juncture, it appears that wheat prices are not high enough to attract much increase in spring wheat acreage, except in Montana if moisture permits. The increase in Montana would reflect the sharp decline in winter wheat seedings there. Production may decline in the European Union as well, due to generally low prices. The year ahead may be the fourth consecutive year that world wheat inventories will be reduced. The question still remains whether or not consumption will have to be reduced. In addition, if supplies must be rationed, how high will prices have to go to accomplish the rationing? The answer depends on how small the world wheat crop is, the magnitude of production of other grains, and the strength of wheat demand.

Because of the large carry in the futures market, a much higher price is already being traded for next year's crop. As of March 9, the March 2002 wheat futures contract at Chicago was \$.56 (20.8 percent) higher than the March 2001 contract. The premium at Kansas City was \$.495 (15.6 percent) and the premium at Minneapolis was \$.41 (12.7 percent). The pattern of large carry in the wheat futures market has persisted for an extended period of time. Because world supplies have been adequate, however, the price of deferred futures have tended to erode to the nearby price as the contracts mature. That is, spot prices have generally turned out to be lower than the price offered by the futures market a year in advance of delivery. Will that pattern change this year? The market will be paying close attention to U.S. acreage and crop condition reports to determine the extent of potential supply decline in the U.S. There appears to be potential for July 2001 futures at Chicago to move back above the \$3.00 market and perhaps challenge the \$3.15 area one more time.

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